



**Director of  
Central  
Intelligence**

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**OCPAS/CIG**

**CY# 285**

# **National Intelligence Daily**

*Monday  
6 June 1983*

~~**Top Secret**~~

**CPAS NID 83-132JX**

**6 June 1983**

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**PALESTINIANS: Significance of PLO Infighting**

*The fighting in eastern Lebanon on Saturday between Fatah rebels and forces loyal to PLO leader Arafat will increase pressure on him to make concessions to dissidents despite his efforts to organize international support for his position.* [redacted]

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Hostilities reportedly began when the rebels fired on loyalists who were attempting to remove a rebel roadblock in Ba'labakk. [redacted]

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Algerian President Bendjedid arrived in Damascus yesterday after talks with Arafat in Algiers on Saturday. The Algerians believe that an independent PLO united under Arafat is essential for progress in the Middle East negotiations. Saudi Crown Prince Abdullah also is in Damascus and is expected to argue the same line. [redacted]

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Meanwhile, a close aide to Arafat has been meeting with senior Soviet officials in Moscow to seek support for the PLO leader in the current factional dispute and to urge the Soviets to press Syria to stop backing the rebels. The PLO news agency reported on Saturday that General Secretary Andropov has sent Arafat a letter endorsing his leadership. [redacted]

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**Comment:** The rebels' willingness to resort to combat escalates their challenge to Arafat and further undermines his credibility. The PLO leader is likely to face increased pressure within Fatah to accommodate the rebels before more serious fighting occurs. [redacted]

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Syria and the rebels will be reluctant to move openly to oust Arafat so long as he enjoys the backing of other Arab leaders. Arafat's Arab supporters, however, probably cannot deter his opponents from demanding major concessions as the price for ending the rebellion. [redacted]

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The USSR probably believes that PLO factionalism and a struggle between Arafat and Syrian President Assad could impede its efforts to unite the Arabs against the Israeli-Lebanese accord, and the Soviets may encourage Syria to reconcile its differences with the PLO. Moscow will be careful, however, not to jeopardize relations with Damascus. Although Arafat's weakness probably will move the USSR to press for a tougher PLO stance on Arab-Israeli negotiations, it is likely to continue backing Arafat's leadership and criticizing efforts to worsen the PLO split. [redacted]

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**NICARAGUA: Conflict With the Church**

*Church-state tensions are increasing as both the Catholic Archbishop and the Sandinistas have adopted a tougher line.*

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The Sandinista press has criticized statements made by the Archbishop and the Pope during a visit last month by Nicaraguan bishops to Rome. In another public attack, the government has alleged that some priests are urging parishioners to join Eden Pastora's insurgent forces. Interior Minister Borge claims that religious freedom still exists in Nicaragua, but that the regime has the right to prohibit antigovernment propaganda—even by churches.

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Meanwhile, a Nicaraguan association of priests has dissolved itself following pressures from the Vatican to restrict the group's political role. As a result, the Catholic clergy will no longer be officially represented in the quasi-legislative Council of State.

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**Comment:**

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The dissolution of the priests' association strengthens the position of the Archbishop and indicates that the Pope's support for him is paying dividends. The strong backing of the Sandinistas by activists in the association gave the regime a lever to use against the Church hierarchy.

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**INTERNATIONAL: Stalemate at UNCTAD VI**

*The stalemate in the North-South dialogue is likely to continue at the Sixth Session of the UN Conference on Trade and Development, which opens today in Belgrade.* [redacted]

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The developing countries have assembled another long and familiar list of proposals for aid increases, trade concessions, and commodity price support schemes that the developed nations are prepared to reject. [redacted]

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At the Nonaligned Summit in March, the developing countries proposed holding an international conference on money and finance for development. As envisioned, the meeting would address a much broader range of issues than the monetary conference discussed at the Williamsburg Summit. [redacted]

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**Comment:** With no prospect for agreement on major substantive issues, many participating countries—including some US allies and the Communist states—are likely to try to put the blame for a deadlock of UNCTAD VI mainly on the US. [redacted]

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A deadlock may harden the rhetoric of the developing countries, but the substance of the demands probably will not change. The emphasis on proposals for immediate economic relief will continue in subsequent North-South meetings because economic recovery in the majority of developing countries will lag behind recovery in the developed countries. [redacted]

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**MALAWI: Pressure for Military Takeover**

Many Malawians want the popular Commander of the Army, General Khanga, to seize control of the government. [redacted]

[redacted] Public resentment toward President Banda's regime is said to be widespread because of the unexplained deaths last month of four leading politicians, two of whom were regarded as strong contenders to succeed the octogenarian President. Most Malawians believe that the politicians were murdered on the orders of senior government officials close to Banda. There have been reports of scattered acts of civil unrest in the normally placid country. [redacted]

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**Comment:** General Khanga appears reluctant to take action against Banda, but he may feel compelled to move if unrest intensifies. Further disorders could occur late this month when legislative elections are scheduled. A military regime headed by Khanga would probably continue Banda's strongly pro-Western policies. [redacted]

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**OAU: Summit Plans**

The OAU Summit is scheduled to open today in Addis Ababa, but US Embassy reporting indicates no imminent solution to the question of membership for the Polisario Front—the issue that prevented a quorum at the planned summit last August. The Polisario insists on attending but is under pressure from the host, Chairman Mengistu, and other supporters to stay away in exchange for placing the question of its membership on the agenda. Representatives of several African governments are negotiating informally to try to reach a compromise. [redacted]

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**Comment:** Morocco almost certainly will boycott the summit if the Polisario is seated at the opening session. It is unclear whether Rabat would be joined by a sufficient number of other moderate opponents of the Polisario to prevent a quorum. Failure by the OAU to hold the summit this time—the organization's third attempt in the past year—could lead to an irreparable split between radicals and moderates and could seriously weaken the OAU's position as international spokesman for Africa and as regional mediator. [redacted]

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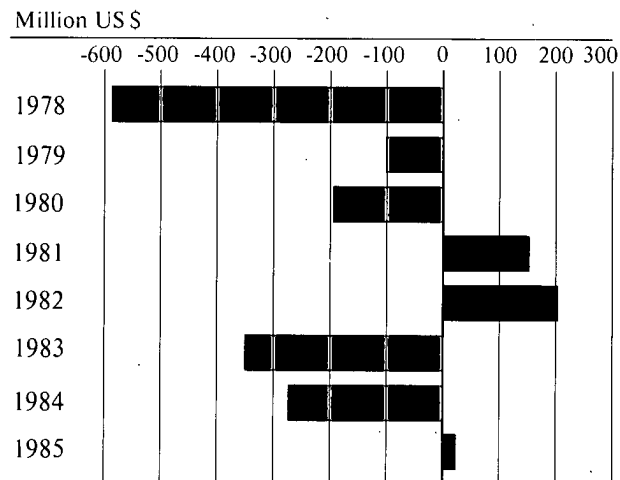
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**Cuba: Hard Currency Account Balance<sup>a</sup>**

<sup>a</sup>Data for 1978-82 are from Cuban Government publications. Current account balances for 1983-85 are based on CIA projections for export earnings and Cuban government forecasts of imports. Because Cuba is not likely to be able to obtain credits to finance the deficits in 1983 and 1984, however, imports probably will be reduced.

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## **Special Analysis**

### **CUBA: Implications of Hard Currency Shortage**

*The Cuban economy, despite the recent rescheduling of debt repayments totaling more than \$500 million, faces more hard currency shortages during the next two years. These shortages will force adjustments that will retard economic growth and reduce personal consumption. The Castro regime shows no inclination, however, to adopt more pragmatic policies that would spur productivity or reduce hardships.* [redacted]

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Cuba's position began to worsen in 1981 with the severe drop in world sugar prices—the source of more than half of Havana's hard currency earnings—and a substantial rise in debt service costs. Last year, after Western financial institutions withdrew more than \$700 million in short-term deposits from Cuban banks, Havana had to reschedule its medium- and long-term debts. [redacted]

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The principal effect of the hard currency shortage has been a forced reduction—about 30 percent last year—of imports from Western nations. Havana depends on these imports for high-quality consumer and producer goods, some of which are unavailable from CEMA. Cuba currently is concentrating on imports of essential raw materials and other goods necessary to produce exports, at the expense of capital investment and consumer goods. [redacted]

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Export growth almost certainly will be constrained, however, by the reduction of imports. The government will do what it can to support the production of sugar, tobacco, and nickel, the most important foreign exchange earners. Nevertheless, all export production will be hurt by the reduced output that already has occurred in construction, steel, and transportation. [redacted]

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### **Stagnation and Austerity**

As a result of the foreign exchange shortage, Havana has little hope of achieving any economic growth this year. The outlook through 1985 is only slightly brighter. [redacted]

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Lack of construction materials will thwart Cuban efforts to build new sugar mills, hotels, electric plants, and similar projects. In addition, much capital equipment will not be replaced or repaired when it should be, and increasing numbers of factories—particularly in the nonexport sectors—will be forced to close or cut back operations. [redacted]

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The austere standard of living is likely to be reduced further over the next few years as a result of the hard currency shortage and related economic stagnation. The availability of consumer goods will dwindle, and food supplies also may be affected, as imports are cut and domestic production reduced. [ ]

### **Economic Policy Measures**

Although the economic situation probably will prompt new debate in the leadership about economic policy, the regime is only likely to adopt a few token reform measures. Havana seems intent mainly on imposing new austerity measures. The government already is preparing the population for tougher times through speeches and newspaper articles urging the people to work harder and sacrifice more. [ ]

The hardliners who dominate the leadership hold the view—and probably will convince President Castro—that any measures smacking of economic liberalization risk creating a groundswell of demands for more. Only last spring the hardliners, using ideological arguments, persuaded Castro to impose restrictions on the farmers' free markets. Moreover, the events in Poland are likely to have strengthened the President's concern over the dangers of ideological deviation. [ ]

The increased austerity probably will not create any threat to Castro's authority in the near future. The exodus from Mariel in 1980 purged the island of many potential troublemakers, and, although incidents such as the sabotage announced by Havana last month may continue, the vast majority of Cubans recognize that overt opposition would be crushed quickly. Castro will be careful to continue ensuring the loyalty of his security forces by protecting their incomes and standard of living. [ ]

### **Future Financing Problems**

Cuba will need to obtain about \$300 million in new financing this year and next year to import even the reduced amounts it has planned. This will be difficult, however, because of the continued wariness on the part of lenders and the ceiling on total debt—\$3.4 billion, or only \$200 million above current levels—set in the rescheduling agreement. [ ]

Havana cannot afford to cut further into its reserves. They probably are already below the \$180 million minimum established in the rescheduling agreement. Imports thus are not likely to be above the level of \$880 million in 1982 and may even drop below this amount. [ ]

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Cuba already has publicly indicated that it will request a rescheduling of payments on principal due in 1984. In addition, because of weather-related crop damage that has reduced hard currency earnings this year, the Cubans may default on, or request a rescheduling of, the estimated \$200 million due in interest payments this year. During the midterm review by its creditor monitoring committee, Cuba is likely to ask for an adjustment of the targets set in its rescheduling agreement, blaming the crop damage for its inability to meet them. [REDACTED]

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Castro cannot count on the USSR to provide the necessary foreign exchange. Nearly all Soviet aid to Cuba is in soft currency. The hard currency shortage nevertheless will bind Cuba more closely to the USSR and its allies as the soft currency source for needed imports. [REDACTED]

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The USSR has eased Cuba's problems somewhat in recent years by purchasing some sugar for hard currency and permitting the resale, for foreign exchange, of Soviet-provided oil that Cuba has been able to conserve. On the other hand, the Soviets' current demand that Havana fill its sugar contracts with them underscores Moscow's preoccupation with its own economic problems. [REDACTED]

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## **Special Analysis**

### **CHINA: The Sixth National People's Congress**

*The National People's Congress convening today in Beijing is unlikely to produce any major departures from current economic and political policies. As China's official ruling body, the Congress probably will appoint a new president and a chairman of the new Central Military Commission. The gathering also may clarify Beijing's intentions regarding urgent economic problems and consider more proposals by the leadership for bureaucratic reform. If things go smoothly on these domestic issues, Deng Xiaoping and his allies probably will find their hand strengthened in foreign policy as well.*

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The Congress reflects Beijing's organizational goals. For this sixth term, composition of the 3,000-member body has been changed to demonstrate the regime's effort to co-opt the technocratic elite.

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More than one-third of the delegates come from outside the party, and intellectuals and professionals are represented in markedly increased numbers. The Standing Committee of the Congress will contain a host of new faces.

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### **New Appointments**

A two-day Central Committee work conference last week approved candidates for national office who will be formally named at the Congress. These include the Congress's own officers, who serve five-year terms, and China's most prominent administrators—the premier and his deputies; state councilors, ministers, and secretary general of the State Council; and judicial officials. Premier Zhao Ziyang, the two vice premiers, and most other incumbents will be returned to office.

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There has been considerable speculation about who will fill the new constitutionally mandated posts of chief of state and chairman of the Central Military Commission. Politburo Standing Committee member Li Xiannian, 78, is widely expected to become China's first chief of state since 1967. There is an outside chance, however, that he will decline the largely ceremonial post on the grounds of poor health.

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Chairmanship of the potentially powerful Central Military Commission almost certainly will go to Deng, who currently heads the party's military commission. If not, it could go to one of Deng's lieutenants, perhaps Politburo member Yang Shangkun.

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The creation of a government commission is part of an effort by Deng and his reformist allies to end the close command relationship between the Army and the party, which allowed a small group of leaders to direct the military against its political enemies during the Cultural Revolution. They also seek to allow commanders greater freedom from party interference in routine military affairs and ensure firm civilian oversight of the military budget. [ ]

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Some old guard officers apparently have opposed creation of a government organization that dilutes direct party control of the military. As a result, the central authorities may still be debating its exact powers. [ ]

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### **Economic Policy**

Zhao's report on the government's performance since the last Congress will be the most important of three economic reports presented to the Congress. Although Zhao probably will stick to current policy lines, his remarks will indicate whether Beijing is now ready to provide stronger solutions to economic problems. [ ]

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The Premier will again warn managers to keep investment within the limits established by the current plan, and he probably will criticize excessive growth in heavy industry. He also will urge closer attention to productivity, a casualty of the too-rapid growth in output during recent months. In addition, Zhao will be likely to call for a continuation of Beijing's measured approach to economic management reforms. [ ]

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Most of the leadership agrees on the general thrust of current reform policies but differs on questions of pace and scope. Many of the leaders favoring increased investment and rapid growth of heavy industry were eclipsed after the retrenchment in 1981. Some of their arguments have regained currency, however, and senior leaders are still trying to settle on an appropriate balance between investment and consumption. [ ]

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### **Organizational Reforms**

Zhao may propose additional measures to restore momentum to the ambitious attempt to streamline the bureaucracy. Last month the first phase of provincial bureaucratic reforms came to a close after 26 of 29 top provincial-level administrators had been replaced. [ ]

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Media reporting and the recent establishment of a new committee to spur the reform of national-level organizations suggest that efforts to eliminate redundant organizations and officials, to upgrade personnel, and to rationalize administration have stalled in many central ministries and are having trouble in getting under way at lower levels. [ ]

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